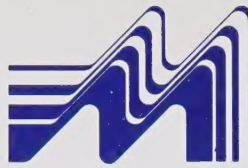


Consolidated
Morrison
Explorations
Limited
Annual Report
1978



Consolidated Financial Statements

for the Year Ended December 31, 1978
Consolidated Morrison Explorations Limited

Officers

A. W. Stollery, *Chairman*
A. Gordon Stollery, *President*
George T. Smith, *Vice-President*
M. A. Columbus, *Secretary-Treasurer*

Directors

M. A. Columbus, *Toronto, Ontario*
William James, *Toronto, Ontario*
H. Reimer, *Toronto, Ontario*
George T. Smith, *Toronto, Ontario*
Robert M. Smith, *Oakville, Ontario*
A. Gordon Stollery, *Calgary, Alberta*
A. W. Stollery, *Unionville, Ontario*

Honorary Directors

Dr. P. W. Ferris, *Toronto, Ontario*
D. R. Watt, *Toronto, Ontario*

Auditors

Coopers & Lybrand,
Chartered Accountants,
145 King Street West,
Toronto, Canada

Registrars and Transfer Agent

Canada Permanent Trust Company,
20 Eglinton Ave. West,
Toronto, Canada.

Bankers

Canadian Imperial Bank of Commerce,
Main Branch, Commerce Court
Toronto, Canada.

Executive Offices

Suite 1700,
11 King St. West,
Toronto, Canada M5H 1A9
416-363-1644

726 Calgary House
550 Sixth Ave. S.W.
Calgary, Alberta
T2P 0S2

Directors' Report to the Shareholders

For the Year Ended December 31st, 1978
Consolidated Morrison Explorations Ltd.



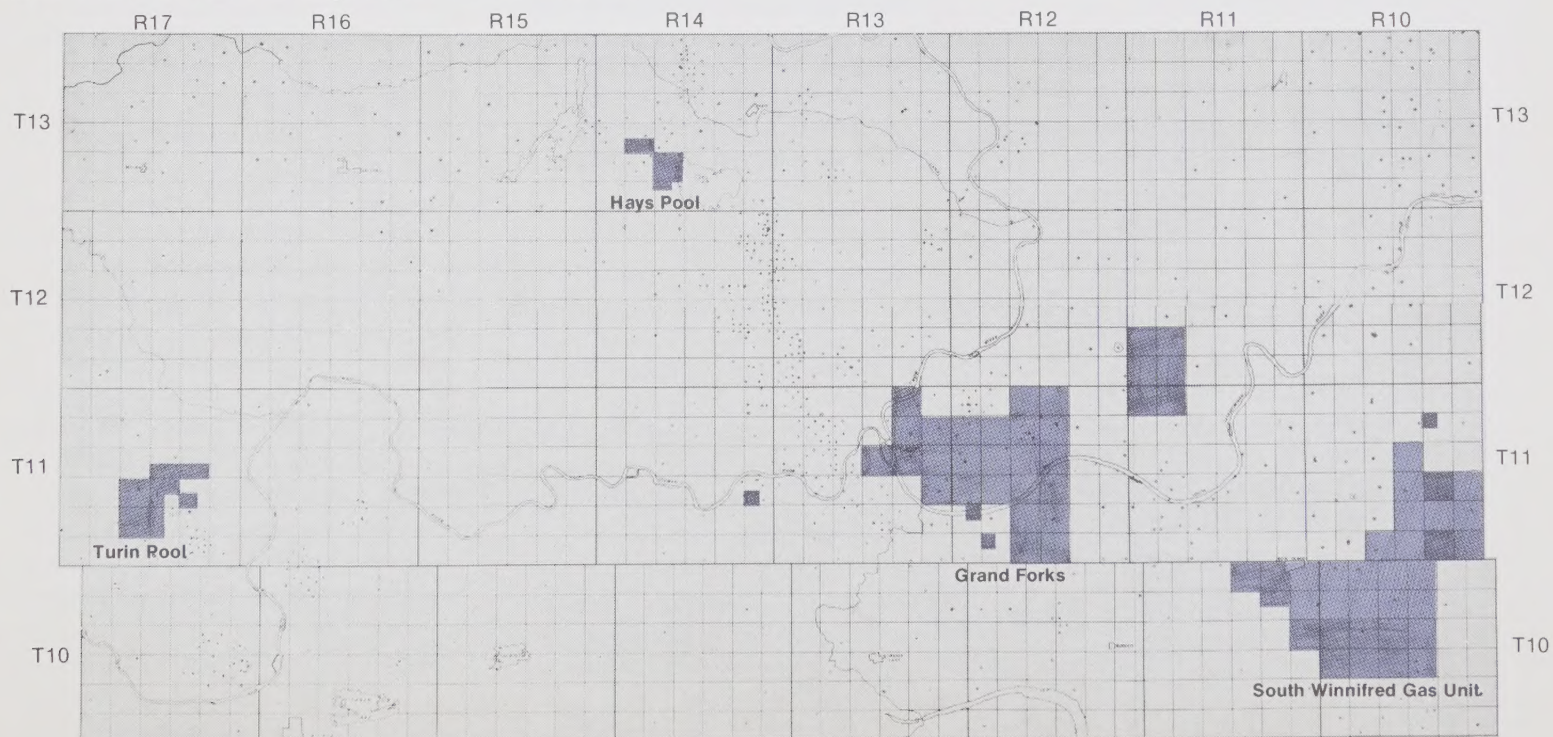
1. Signalta area of interest
2. Harris area of interest


In 1978 Consolidated Morrison Explorations Limited ("Morrison") increased the pace of its involvement in oil and gas exploration and development in western Canada. In addition to continued and expanded participation in exploration programs operated by others, in September of 1978 Morrison opened a Calgary office from which its President will work. On April 20th, 1979, Morrison completed its first significant oil and gas acquisition which was comprised of a 100% share purchase of Harris Exploration Ltd., a Calgary-based oil and gas producer. Despite the emphasis on oil and gas in 1978, a number of extensive diamond drill programs were carried forward on Morrison's wide-ranging mineral holdings. These and other developments are outlined below.

OIL AND GAS EXPLORATION

In 1978 Morrison participated directly in the drilling of over 100 exploration and development wells. Since commencement of oil and gas activity in 1977, Morrison has participated in a total of 135 wells of which 76 have been cased as gas wells, 4 as oil wells and 55 have been dry holes for an overall success ratio of 59%. Morrison's portion of the proven and probable net gas reserves before royalty associated with this drilling as at December 31st, 1978 is estimated by third party consultants to be 4.65 BCF. For a further breakdown of these reserves please refer to the accompanying Table of Reserves. The acquisition of Harris Exploration Ltd. subsequent to year end further increased Morrison's reserves by the equivalent of 6.96 BCF (oil reserves converted to gas

Location of Harris Exploration Ltd. Lands





equivalent) giving Morrison a total reserve position effective January 1st, 1979 of approximately 11.62 BCF, the majority of which is under contract. Despite the disappointing Orbit venture described below, we feel Morrison has rapidly established an excellent base of oil and gas reserves and cash flow for future growth.

Signalta Joint Venture

Morrison commenced participation with Signalta Resources Ltd. ("Signalta") in April, 1977 and results to date have been very satisfactory. This venture fits ideally with our immediate objectives because its emphasis is on exploration for gas reserves which are marketable. For example, based on drilling to date and contracts in hand, 1980 cash flow from the Signalta participation net to Morrison should be in excess of \$250,000. Plans for the balance of 1979 are for a continued aggressive exploration program which may see 100 wells drilled during the year and a budget of \$10,000,000 expended. Morrison maintains a 10% working interest in this Signalta-operated program.

Renaissance Joint Venture

Morrison has participated to the extent of 11.11% in exploration programs operated by Renaissance Resources Ltd. ("Renaissance") of Calgary in 1977 and 1978 and in addition owns preferred shares in Renaissance convertible into approximately 3% of its common equity. Morrison is participating with Renaissance again in 1979 but has reduced its percentage contribution somewhat from previous years. The majority of reserves established with Renaissance are contracted to Pan Alberta but shut-in pending approval of gas exports to the United States.

Orbit Joint Venture

In 1978 Morrison participated in the drilling of 3 dry holes in Montana in a program operated by Orbit Oil & Gas Inc. of Tyler, Texas. Participation in this high risk-high return venture was not proceeding in line with original expectations and hence further participation was terminated. The Statement of Earnings reflects a \$341,291 write-down for this joint venture.

MINERAL EXPLORATION

Flin Flon Projects

During the first half of 1978 exploration activity on both the Manitoba and Saskatchewan land holdings was comprised of ground followup and definition of approximately 40 previously detected airborne geophysical anomalies. In the last quarter of 1978 and in the first quarter of 1979, 16 holes totalling 6,117 feet were diamond drilled in Manitoba and 6 holes totalling 2,698 feet were diamond drilled in Saskatchewan. Although many of the conductive intersections were composed of massive sulphides, all were barren of base metals except in geochemical quantities. In 1978 a total of \$408,558 was spent on the Flin Flon projects for which Morrison is the operator. Plans for 1979-80 are currently being formulated.

Urex Project

In February 1979, Norcen Energy Resources Ltd., who was funding 100% of the exploration costs in this uranium exploration project, gave notice of withdrawal after having spent \$650,000. Ninety Five (95) claims are still retained in close proximity to the Agnew Lake uranium mine of Kerr Addison Mines Ltd. Morrison maintains a 51% ownership of this group of claims and 60% in a twelve (12) block claim group nearby, both of which are underlain by low-grade uranium reserves. No further exploration is planned at the present time.

Bathurst, New Brunswick

In 1978 Morrison farmed-out a large prospective base-metal property located near Bathurst, New Brunswick to Metallgesellschaft Canada Ltd. A comprehensive program of ground geophysics followed by 2,100 feet of diamond drilling was carried out. This drilling was unable to extend significantly previously detected base metal mineralization and consequently the property was dropped with no further work planned.

Great Burnt Lake Project, Newfoundland

A full scale ground follow-up on this large area in central Newfoundland was carried out in 1978 under the management and financing of Rio Tinto Canadian Exploration Ltd. A total of 24 airborne geophysical anomalies were tested by diamond drilling for a total of 2,031 feet. Results have been negative to date but it is expected that field work will continue in the summer of 1979.

OTHER PROPERTIES AND PROJECTS

Morrison maintains in good standing its 25.9% interest in a large columbium (niobium) deposit located near Moosonee, Ontario, a 49% interest in 82 leased mining claims in the former Township 168 west of Blind River, Ontario and a 100% interest in 3 leases on which was located the old Morrison silver mine near Gowganda, Ontario. The James Bay columbium deposit referred to above contains in excess of 50,000,000 tons of material grading 11 lbs. of Cb_2O_5 per ton with a rich central core grading 16 to 18 lbs. per ton. The Morrison silver property probably still contains some high-grade reserves and exploration potential and is of increasing interest with the increased price of silver.

ACQUISITIONS

Subsequent to the year end, Morrison purchased 100% of the outstanding shares of Harris Exploration Ltd. of Calgary for a price of approximately \$1,700,000. An independent consulting firm has estimated Harris' net pre-royalty proven and probable gas and oil reserves as being 3.18 BCF and 472,000 barrels respectively. In addition, Harris owns varying interests in approximately 70 sections of land in southern Alberta, some of which are prospective for further accumulations of hydrocarbons. Funds for this acquisition were provided by the Canadian Imperial Bank of Commerce. In due course our plan is to wind-up Harris and operate it as a division of Morrison. The income from Harris combined with the growing cash flows from the Signalta and Renaissance exploration joint ventures will give Morrison a strengthening cash flow base to complement its already strong asset base. A land map showing the distribution of Harris lands is enclosed in the annual report.

FINANCIAL

In 1978 Morrison reduced its shareholding in Noranda Mines Ltd. to 150,000 in order to provide cash to participate in the various programs outlined above. Subsequently economic conditions have improved materially for Noranda so that as at the date of writing the market value of our residual shareholding is \$6,250,000 or \$1.37 per Morrison share. On an annualized basis Noranda dividends will provide Morrison with \$360,000 of income in 1979.

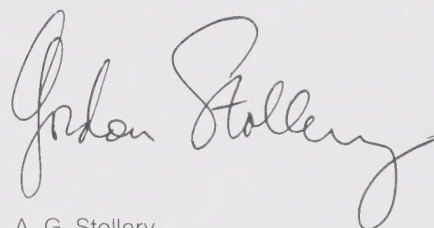
In March of 1979 our U.S. subsidiary, Morrison Nuclear, Inc., disposed of a 20% net profit interest in a uranium property in Wyoming for approximately \$430,000 CDN.

Also in 1978, Morrison declared a non-cash capital dividend out of pre-1971 surplus. The recognition of the impact of this capital surplus on corporate shareholders came late in the year and shareholders were given less notice than would normally be the case. We would point out however, that the effect of this distribution is to convert retained earnings to paid-up capital and that this will have no effect whatsoever on individual shareholders but could have had and may in the future have a beneficial effect on corporate shareholders.

OUTLOOK

During 1978 Morrison changed its emphasis from mineral exploration to oil and gas exploration and acquisition. This trend will strengthen in 1979. Although we are always on the lookout for mineral opportunities, we feel the best present direction to create a growing and profitable company is in the oil and gas industry.

On behalf of the Board of Directors.



A. G. Stollery
President

May 24th, 1979

Handwritten: "Oil and Gas Reserve Summary"

OIL AND GAS RESERVE SUMMARY EFFECTIVE JANUARY 1, 1979 (Including Harris Exploration Ltd. Acquisition)

	Net Working Interest Remaining Reserves Before Deduction of Royalties		Net Remaining Reserves After Deduction of Royalties		Future Cash Flow Before Income Taxes	
	Oil (MSTB)	Gas (MMSCF)	Oil (MSTB)	Gas (MMSCF)	Undisc. (\$M)	Present Worth @ 15% (\$M)
Proven	295,000	6.905	209	4.523	11,997	4,091
Proven Plus Probable	473	7.833	333	5.135	14,933	4,893

Bill is of c feet

Consolidated Balance Sheet

as at December 31, 1978

Consolidated Morrison Explorations Limited

ASSETS

Current Assets	1978	1977
Accounts receivable	\$ 153,809	\$ 167,616
Current portion of mortgages receivable	172,001	222,343
	325,810	389,959
Mortgages Receivable (note 2)	2,351,931	2,623,826
Investment in and Advances to Joint Ventures (note 3)	1,688,807	787,659
Investment in Other Companies — at cost (quoted market value — \$5,518,633; 1977 — \$5,074,288) (note 4)	332,623	508,571
Mining and Oil Properties (note 5)	2,418,736	2,629,323
Land Held for Investment — at cost (note 6)	1,351,497	1,318,504
Fixed Assets — at cost, less accumulated depreciation and amortization (1978 — \$86,707; 1977 — \$79,317).....	27,843	37,828
	\$8,497,247	\$8,295,670

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Consolidated Morrison Explorations Limited as at December 31, 1978 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one of the joint ventures.

position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

April 20, 1979

Coopers & Lybrand
Chartered Accountants

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial

LIABILITIES

Current Liabilities

	1978	1977
Bank indebtedness	\$ 85,008	\$ 30,683
Bank loans (note 7)	2,225,000	2,502,208
Accounts payable and accrued liabilities	44,586	128,013
Current portion of long-term debt	281,500	52,296
Promissory notes payable	198,989	160,513
	<u>2,835,083</u>	<u>2,873,713</u>

Long-Term Debt

Mortgages on real estate (note 8)	281,500	349,257
Less: Current portion	281,500	52,296
	<u>—</u>	<u>296,961</u>

Minority Interest in a Subsidiary

<u>—</u>	<u>14,625</u>
<u>2,835,083</u>	<u>3,185,299</u>

SHAREHOLDERS' EQUITY

Capital Stock (note 9)

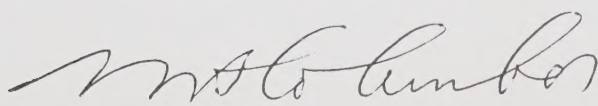
Authorized — 10,000,000 shares of no par value		
Issued and fully paid — 4,530,000 shares	7,021,500	4,530,000
Less: Discount	1,609,996	1,609,996
	<u>5,411,504</u>	<u>2,920,004</u>

Retained Earnings

<u>250,660</u>	<u>2,190,367</u>
<u>5,662,164</u>	<u>5,110,371</u>
<u>\$8,497,247</u>	<u>\$8,295,670</u>

Signed on Behalf of the Board


A. GORDON STOLLERY, Director


MICHAEL A. COLUMBOS, Director

Consolidated Statement of Earnings

for the year ended December 31, 1978

Consolidated Morrison Explorations Limited

	1978	1977
Income from Investments		
Dividends	\$ 219,900	\$ 240,000
Interest and royalties	246,050	254,154
Exploration technology joint venture (note 3)	885	27,667
	<u>466,835</u>	<u>521,821</u>
Administrative and Financial Expense		
General administration	194,949	203,070
Bank interest	238,890	185,049
	<u>433,839</u>	<u>388,119</u>
Less: Amounts allocated to mining and oil exploration	147,112	149,704
	<u>286,727</u>	<u>238,415</u>
Earnings Before Exploration Activity and Extraordinary Items	180,108	283,406
Exploration Activity		
General exploration costs	139,014	126,559
Mining and oil properties abandoned and exploration expenditures applicable to properties written off	367,075	109,411
Provision for oil and gas joint venture loss	341,291	—
	<u>847,380</u>	<u>235,970</u>
Earnings (Loss) Before Extraordinary Items	(667,272)	47,436
Extraordinary Items		
Gain on sale of investments (note 11)	1,219,065	419,805
Net Earnings for the Year	\$ 551,793	\$ 467,241
Per Share Information:		
Earnings before exploration activity and extraordinary items	\$0.040	\$0.063
Earnings (loss) before extraordinary items	\$(0.147)	\$0.010
Net earnings for the year	\$0.122	\$0.103

Consolidated Statement of Retained Earnings

for the year ended December 31, 1978

Consolidated Morrison Explorations Limited

	1978	1977
Balance — Beginning of Year	\$2,190,367	\$1,723,126
Net earnings for the year	551,793	467,241
	<u>2,742,160</u>	<u>2,190,367</u>
Amount transferred to capital stock (note 10)	2,491,500	—
Balance — End of Year	\$ 250,660	\$2,190,367

Consolidated Statement of Changes in Financial Position

for the year ended December 31, 1978

Consolidated Morrison Explorations Limited

	1978	1977
Source of Working Capital		
Current operations —		
Net earnings (loss) for the year before extraordinary item	\$ (667,272)	\$ 47,436
Items not affecting working capital —		
Depreciation and amortization	9,985	13,460
Income from joint ventures	(885)	(27,667)
Mining and oil properties abandoned	75,409	7,227
Deferred exploration expenditures applicable to mining and oil properties abandoned	291,666	102,184
Provision for joint venture loss	341,291	—
	<u>50,194</u>	<u>142,640</u>
Proceeds on sale of land held for investment	—	1,750,093
Proceeds on sale of investment in other companies	1,395,012	191,400
Reduction of investment in and advances to joint ventures other than oil and gas joint ventures	—	479,267
	<u>1,445,206</u>	<u>2,563,400</u>
Use of Working Capital		
Increase in investment in and advances to oil and gas joint ventures	1,241,554	678,530
Increase in investment in other companies	—	125,554
Increase (decrease) in mortgages receivable	(271,895)	1,418,771
Additions to mining and oil properties	2	3,026
Deferred exploration expenditures	156,485	192,537
Carrying charges on land held for investment	32,993	17,669
Reduction of long-term debt	296,961	390,032
Additions to fixed assets	—	2,370
Reduction of minority interest	14,625	—
Reduction of deposit on sale of land held for investment	—	100,000
	<u>1,470,725</u>	<u>2,928,489</u>
Decrease in Working Capital	<u>25,519</u>	<u>365,089</u>
Working Capital Deficiency — Beginning of Year	<u>2,483,754</u>	<u>2,118,665</u>
Working Capital Deficiency — End of Year	<u>\$2,509,273</u>	<u>\$2,483,754</u>

Notes to Consolidated Financial Statements

for the year ended December 31, 1978

Consolidated Morrison Explorations Limited

1. Accounting Policies

- (a) The consolidated financial statements include the accounts of the company and its subsidiaries of which Morcon Explorations Limited is 74% owned and the following are wholly-owned: Morrison Resources Limited, Morrison Nuclear Inc. and Morlan Properties Limited.
- (b) Mining and oil properties are generally carried at cost and exploration costs related thereto are deferred. If a property is abandoned or considered to be of little future value, the cost thereof and the related deferred exploration expenditures are written off in the statement of earnings.
- (c) Land held for investment is carried at cost and applicable carrying charges are capitalized.

2. Mortgages Receivable

Mortgages receivable consist of:

Amount \$	Interest per annum	Due date
152,877	11 1/2% to 13%	1982 or earlier
1,205,054	9%	1981
914,000	10%	annual instalments to 1982
80,000	Non-interest bearing	1987
<u>2,351,931</u>		

The \$80,000 mortgage is due from an officer and director of the company.

3. Investment in and Advances to Joint Ventures

Investment in and advances to joint ventures consist of:

	1978	1977
Oil and gas joint ventures	\$1,920,084	\$ 678,530
Less: Provision for loss	341,291	—
	<u>1,578,793</u>	<u>678,530</u>
Exploration technology joint venture	110,014	109,129
	<u>\$1,688,807</u>	<u>\$ 787,659</u>

The company's interest in its joint ventures is being accounted for by the equity method. The above total includes an investment of \$157,732 in an oil and gas joint venture in which two of the officers (one of whom is also an investor in the joint venture) are officers of Consolidated Morrison Explorations Limited. The company is committed to advance \$500,000 to the oil and gas joint ventures in 1979.

4. Investment in Other Companies

	1978	1977
Noranda Mines Limited —		
• 150,000 shares — at cost		
(quoted market value —		
• \$5,512,000; 1977 — 200,000		
shares — \$5,000,000)	\$ 263,777	\$ 351,702
Other listed shares and		
debentures — at cost (quoted		
market value — \$6,633; 1977		
— \$74,288)	31,312	119,334
Other shares (unlisted or		
escrowed) — at cost, less		
amounts written off	37,534	37,535
	<u>\$ 332,623</u>	<u>\$ 508,571</u>

5. Mining and Oil Properties

Mining and oil properties consist of:

	1978	1977
Mining claims — at cost	\$ 755,541	\$ 826,270
Oil and gas leases — at cost	681	5,361
Deferred exploration		
expenditures on mining claims	1,659,995	1,749,057
Deferred exploration		
expenditures on oil and gas		
leases	2,519	48,635
	<u>\$2,418,736</u>	<u>\$2,629,323</u>

The amounts shown for mining claims, oil and gas leases and deferred exploration expenditures represent net costs to date, less amounts written off, and do not necessarily reflect present or future values.

6. Land Held for Investment

Land held for investment is stated at the lower of cost and net realizable value and includes the following:

	1978	1977
Land — at cost	1,103,241	1,103,241
Property taxes and mortgage		
interest	159,222	125,978
Consulting, engineering and		
legal costs	113,081	111,632
Applicable portion of		
administrative expenses	11,029	11,029
	<u>1,386,573</u>	<u>1,351,880</u>
Less: Rental income	35,076	33,376
	<u>\$1,351,497</u>	<u>\$1,318,504</u>

7. Bank Loans

The bank loans are secured by investments having a carrying value of \$295,089 (quoted market value — \$5,031,633) and by a general assignment of accounts receivable.

8. Long-Term Debt

Mortgages payable bear interest mainly at 8% to 10%.

9. Capital Stock

Effective May 30, 1978 the authorized capital was increased to 10,000,000 shares and the par value changed from \$1 to no par value.

As at December 31, 1978 the company had a stock option agreement with one officer for 25,000 common shares of the company, exercisable at a price of \$1.60 per share until May 31, 1979.

During 1977 the company reserved 200,000 shares of treasury stock for the purpose of an employee stock option programme.

10. Amount Transferred to Capital Stock

To preserve the capital nature of the company's 1971 Capital Surplus on Hand (as that term is defined in the Income Tax Act of Canada), the directors passed a by-law, effective December 22, 1978 whereby \$2,491,500, representing 1971 Capital Surplus on Hand, was

transferred from retained earnings to capital stock. This by-law is subject to ratification at the annual shareholders' meeting.

11. Extraordinary Items

The extraordinary items consist of the following:

	1978	1977
Gain on sale of land held for investment	\$ —	\$ 434,405
Gain (loss) on sale of investments in other companies	<u>1,219,065</u>	<u>(14,600)</u>
	<u>\$1,219,065</u>	<u>\$ 419,805</u>

12. Remuneration of Directors and Senior Officers

Directors and senior officers, as defined in the Business Corporations Act, received direct remuneration of \$97,678 in the year ended December 31, 1978 (\$106,307 in 1977).

13. Income Taxes

The companies have exploration and development expenditures, earned depletion and other deductions substantially in excess of amounts presently carried in the accounts, which may be available to reduce income taxes otherwise payable in future years.

14. Subsequent Event

Subsequent to the year-end the company purchased all the issued and outstanding shares of Harris Exploration Limited, an Alberta based oil and gas producer, for a total consideration of \$1,700,000.

